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Consumer - 30% Sugar Price Hike

Author: [PublicInvest](#) | Publish date: Fri, 5 Aug 2016, 09:56 AM

Greenlight for 30% rise in refined sugar price. According to news portal The Edge, MSM Malaysia Holdings was quoted as saying that the government has given permission for wholesale price to rise by up to RM600 a tonne, from RM1,900 per tonne currently to between RM2,400 and RM2,500, effective August 1. MSM had also proposed to the government to raise the retail price of refined sugar from current price of RM2.84.

Winning party is MSM, while the ones on the losing end are companies with higher sugar volume as its raw materials. Among the companies are F&B players, particularly ones operating in confectionery and beverages industry. As for companies under our coverage, one that is likely to be affected is London Biscuits (Outperform, TP: RM1.03), which sugar makes up c.14% of its cost of goods sold. As it relies on only a few suppliers, there is low negotiation power on its end. However, the impact will not be immediate as raw materials are usually stocked up in advance. Other players in sugar-related food manufacturers may feel an impact as well, though the degree would depend on amount of sugar volume used and its inventory and trading practice.

As for consumers, sugar price hike tend to result in other price hikes, primarily food segment, which will affect consumption and spending pattern. If government decides to approve the proposed rise in retail price of refined sugar, the impact felt would be even more, and this may affect the recovering consumer sentiment, which had improved in 2QFY16 to 78.5, from 72.9 in 1QFY16 (MIER).

For the affected F&B players, a few ways to handle the hike include i) passing on to consumers, ii) lower sugar content in its products, and iii) diversify into more low sugar content products. We believe that the sugar price hike is unavoidable, consider that raw sugar price has gone up by about 70% year-on-year. Since majority of the F&B counters have performed favourably this year, we think that the share price might take a beating based on this news.

Source: [PublicInvest Research](#) - 5 Aug 2016